



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/17/2004

GAIN Report Number: EZ4005

Czech Republic

Retail Food Sector

Market Update

2004

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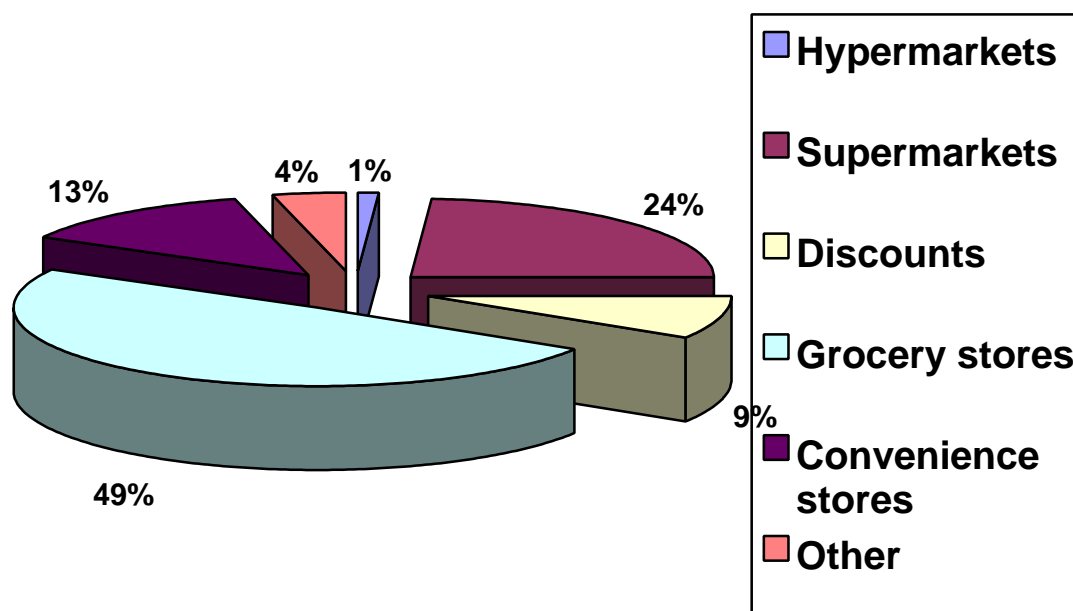
Report Highlights:

The Czech retail sector is becoming increasingly concentrated with the top ten retailers having 55% market share. Discount, specialized and convenience stores are increasing in number. Ready-to-eat meals have a strong growth potential. About 25% of food products are imported. As consumers become more affluent, quality will become more important. U.S. food exports with good sales potential include dried fruits, nuts, wine, distilled liquors, seafood, rice, sauce, spices, baking mixes, and snacks.

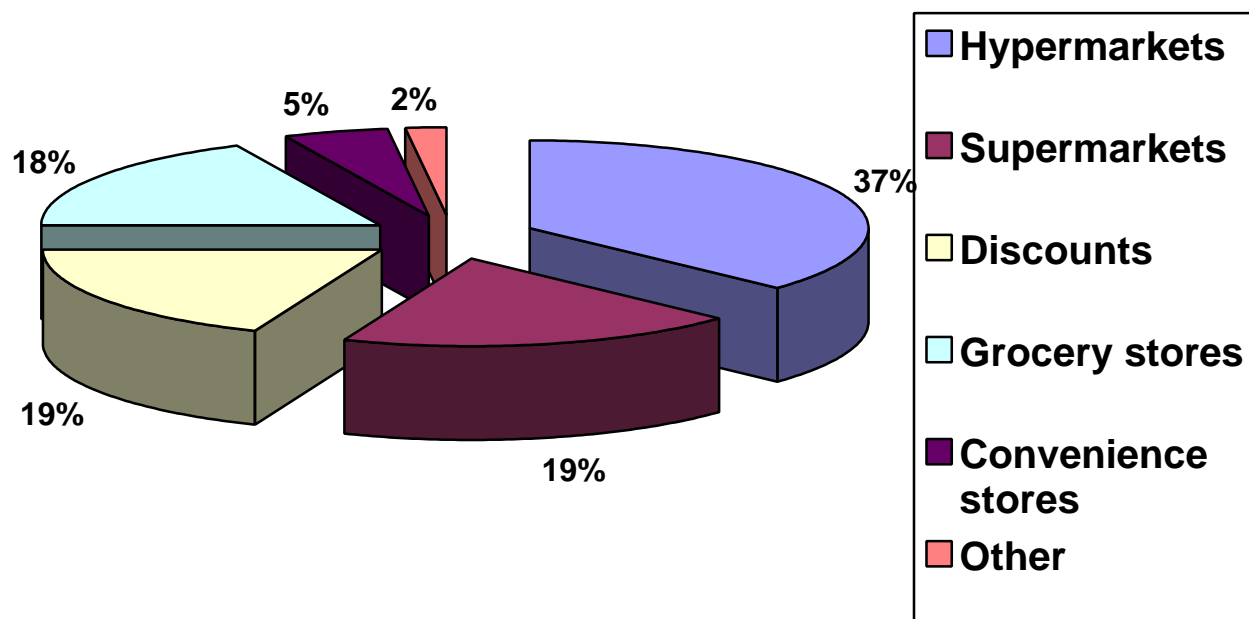
Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1]
[EZ]

SECTION I. Market Summary

- In 2003, annual turnover for the Czech retail sector amounted to \$11 billion.
- Annual growth is 6% per year.
- The sector has reached a high level of concentration with 74% of consumers shopping at one of the top 10 stores and turnover for the top 10 amounting to 55% of total sales. This trend will continue. The top 10 retailers are expected to have 70% of market share in two years. Differentiation among retailers will be the next step.
- Roughly 25% of food products are imported.
- Expenditures on food, beverages and tobacco eat up 26% of an average income

Retail Food Sector Market Share - 1997

Retail Food Sector Market Share - 2003



- The popularity of hypermarkets is growing due to their wide range of products, low prices, high quality of fresh food products, large parking lots, and a variety of services offered.
- Average store size is 253 square meters per 1,000 inhabitants (in Germany it is 330 sq.m.).
- There is highly competitive environment in the Czech retail sector - supply is higher than demand and retail chains fight for customers by keeping prices low, introducing cheap private labels (some chains even high quality private labels), bonus/loyalty cards, advertisements in the press.

Services:

- Some stores have longer opening hours (e.g. Tesco hypermarkets are open "24-7", Carrefour hypermarket in Prague center closes at midnight) than in other European countries (however, with the upcoming EU accession in May, a draft law restricting opening hours at night, on weekends and official holidays, is now in the Parliament)
- Many retail chains offer home delivery
- Various financial services enable higher-purchase payments
- Some chains offer electronic shopping through their webpages
- There are no restaurants, pharmacies, banks etc. located in the supermarkets. However, there are usually many stores and fast food restaurants right outside the large hypermarkets in shopping malls; only some hypermarkets have tables next to their grill for on-the-spot consumption of grilled meat products
- Most retailers sell some ready-to-eat products at the deli counter (fried fish, fried chicken, sandwiches, etc.), the larger hypermarkets sell grilled chicken and offer a range of uncooked seasoned meats

Future:

- After EU accession in May 2004, the Czech retail sector will grow at a slower pace; hypermarkets will reach their saturation point; discounts and specialty stores will continue growing
- Convenience stores and ready-to-eat meals have a strong growth potential
- Concentration will increase: in 2003. At present, top 10 retailers have a 55% market share. In 2006, they will have 70% market share
- High competition will force chains to focus on differentiation (with new product categories – e.g. organics; stronger branding; cost reduction; services – e.g. health care, banks, restaurants, etc.)
- The number of shopping centers will grow (especially in medium sized cities)
- The independent specialty store will gain ground
- Currently, prices play a key role. However, in three years quality, time spent in the store, and price will have almost equal importance for choosing a shopping location
- New specialized wholesale companies will emerge

Advantages	Challenges
Retail sector is the most developed segment of the agricultural/food sector (processors still have space to improve); chains offer a great variety of high quality products	After the EU accession, some retailers will start purchasing some products directly from their central office in the EU in order to save costs (some US products on the Czech market may not get to the stores)
Czech economy is growing, increased consumption is expected	Tougher competition with EU suppliers
Food consumption will grow moderately (people switch from basic to more luxury food)	Higher transportation costs from the U.S.

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

- All supermarket and hypermarket chains import products through Czech importers and wholesalers; this may change with the EU accession as some retail chains may centralize buying to European headquarters in order to save costs (this would be applied for grocery products not fresh food)
- Consolidators in the EU supply some international retail chains with U.S. products – the list of these can be found at: <http://www.american-foods.org>
- Since retailers have a stronger position in the Czech Republic than suppliers or wholesalers (where concentration has not happened yet), most suppliers have to pay huge sums to get their products on the store shelves. This so called “listing fee” depends on the market position of the supplier. The less known the brand or the less indispensable the product is, the higher the listing fee.
- U.S. exporters should contact Czech importers directly (the FAS office in Prague can provide a list of importers upon request)
- Importers usually specialize in a product area, i.e. dry groceries, frozen products, beverages, dried fruit and nuts, alcoholic beverages, etc.
- Retailers do not want to carry products containing biotech products and require that each imported product be accompanied with a statement “that it does not contain genetically modified organisms (GMO). This requirement has been a problem for exporters of some U.S. food products – corn chips, baking mixes containing soya, etc.)

- Exporters should also be aware that importers expect that new-to-market products will be supported with some marketing activities at least partially paid by the exporter

Market Structure

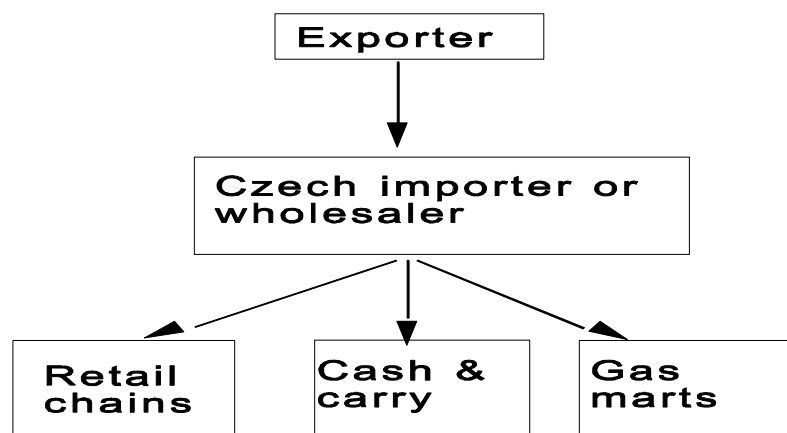
Company Profiles

A. Hypermarkets, supermarkets, etc.

- Hypermarkets and discounts stores are growing, however, its growth pace is slowing down
- In the future discounts, specialized and convenience stores will grow
- Supermarkets are stagnating and are looking for new concepts to attract customers (e.g. Delvita's new concepts "Delvita Proxy" and "Delvita City" for quicker and more convenient daily shopping in smaller stores)
- Retailers buy products mostly from Czech importers
- Makro Cash and Carry buys products from a special wholesaler

Table shows company profiles of top 10 retailers in the Czech Republic:

(Notes: C&C = cash and carry, HM = hypermarket, SM = supermarket, DIS = discount store)



Retailer Name and Outlet Type	Ownership	Turnover in 2003 (\$ Mil)	No. of Outlets	Locations	Purchasing Agent Type
Makro C&C CR (C&C Makro)	Dutch, owned by Metro, Germany	\$1,385	10 C&C	larger cities	cash and carry, imports through Hopi
Ahold (HM Hypernova, SM Albert)	Dutch	\$1,250	43 HM 177 SM	hypermarkets in large cities, supermarkets in larger and	retailer

				small cities	
Swarz CR (HM Kaufland, DIS Lidl)	German	\$1,038	53 HM 51 DIS	mid size and smaller cities, rural areas	retailer
Rewe CR (SM Billa, DIS Penny Market)	German	\$865	73 SM 142 DIS	Large, mid size and smaller cities	retailer
Tesco Stores CR (HM Tesco, SM Tesco)	U.K.	\$827	16 HM 6 SM	larger cities	retailer
Globus CR (HM Globus)	German	\$700	10 HM	large and mid size cities	retailer
Tengelmann CR (DIS Plus)	German	\$465	107 DIS	mid size cities, rural areas	retailer
Carrefour CR (HM Carrefour)	French	\$480	9 HM	large cities	retailer
Delvita (SM Delvita)	Belgium	\$427	94 SM	large, mid size and smaller cities	retailer
Spar CR (HM Interspar)	German	\$346	14 HM	mid size cities	retailer

B. Convenience stores, gas marts, kiosks

- There are no convenience store chains in the Czech Republic similar to the 7-Eleven style of shop in the U.S., but only tiny stores called “vecerka” (the evening stores), which are open from late afternoon to late evening
- In the last 14 years, many large international gas station chains built gas stations and marts throughout the country
- There are several international gas station chains that operate gas marts (e.g. OMV, Esso, Shell, Agip, Aral) and a Czech chain Benzina
- Gas marts are operated as franchises, and the owners have a contract with the parent firm which in turn has a contract with food suppliers
- Gas marts are supplied either directly by producers (e.g. Coca Cola) or by wholesalers
- The best way to get U.S. products to the gas marts and kiosks is through specialized importers (note: a list is available upon request from the FAS office in Prague)
- Gas marts are open 24 hours
- Kiosks are located in tourist areas and usually sell fast food and some drinks
- A new phenomenon in the Czech Republic are popcorn stands in large movie theaters - the kiosks are supplied by specialized importers
- Besides gas stations some hypermarkets are open 24 hours, 7 days a week

C. Traditional Markets, Independent stores

- Small independent stores have 25-30% market share, international retail chains have 70-75% market share (for comparison, small stores represent 7% in France and 60% in Greece)
- Independent stores buy products from wholesalers, importers, or from a cash & carry (i.e. Makro)
- In order to get volume discounts, smaller firms are forming "purchasing alliances" to buy in bulk from suppliers, and "voluntary alliances" to deal with selected wholesalers
- In large and mid-size cities, traditional stores have been pushed out by hypermarkets and supermarkets
- Most small grocery stores in rural areas are part of some cooperative
- In the future, many small-sized stores will either offer some extra service (e.g. opening hours) or will focus on specialties
- There are also traditional open markets selling mainly produce or seasonal items (i.e. live carp at Christmas)

SECTION III. COMPETITION

The following table from the UN Trade Statistics shows U.S. import value in 2002 and market share with consumer-oriented agricultural products:

Czech Republic Imports of Consumer-Oriented Agricultural Products

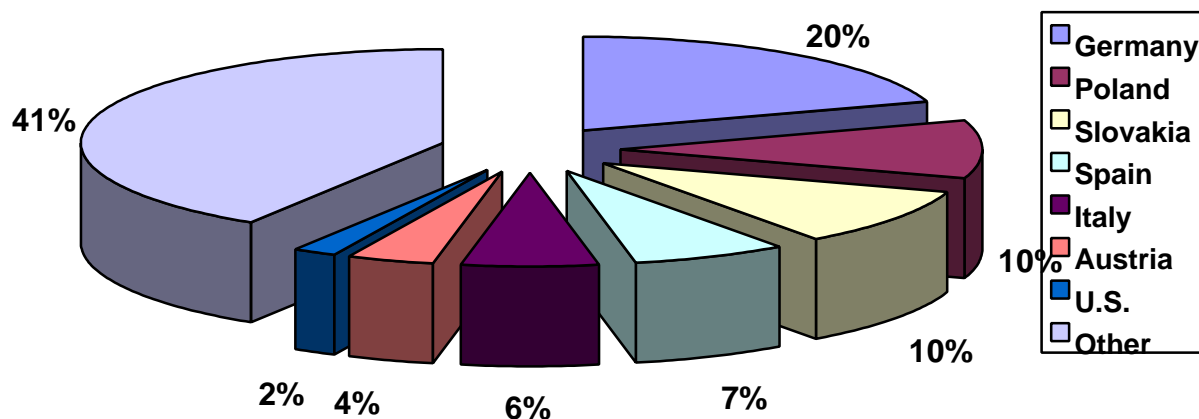
(In Millions of Dollars)

Imports from the World	Imports from the U.S.	U.S. Market Share	
CONSUMER-ORIENTED AGRICULTURAL TOTAL	1,400	25	2%
Snack Foods (Excl. Nuts)	163	1	0.12%
Breakfast Cereals & Pancake Mix	11	1	0.84%
Red Meats, Fresh/Chilled/Frozen	52	0	0%
Red Meats, Prepared/Preserved	18	1	1%
Poultry Meat	33	0	0%
Dairy Products (Excl. Cheese)	77	1	0.40%
Cheese	47	0	0%
Eggs & Products	4	1	6%
Fresh Fruit	206	1	0.02%
Fresh Vegetables	137	1	0.00%
Processed Fruit & Vegetables	118	3	2%
Fruit & Vegetable Juices	28	1	1%
Tree Nuts	22	7	33%
Wine & Beer	56	1	0.37%
Nursery Products & Cut Flowers	65	1	2%
Pet Foods (Dog & Cat Food)	22	1	3%

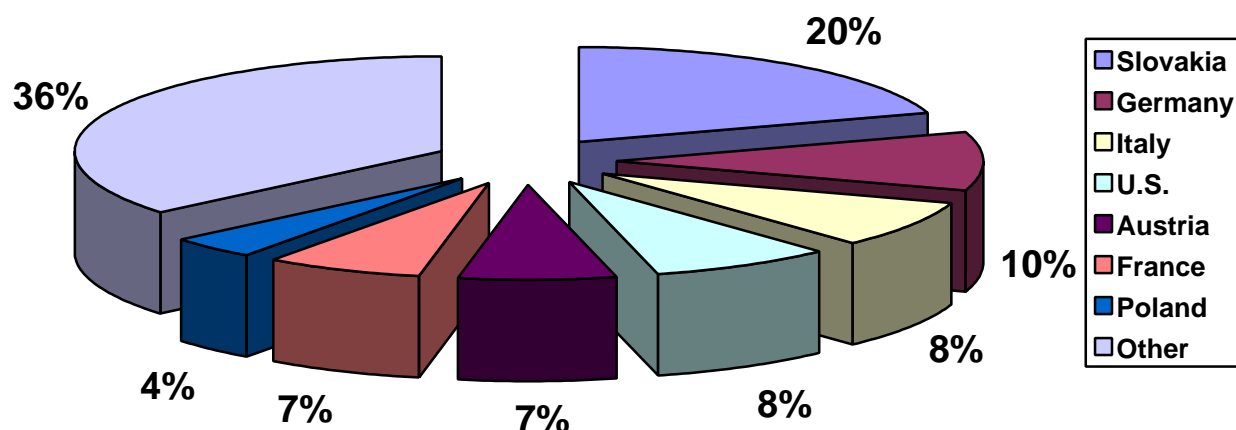
- The main competitors to U.S. exporters of consumer oriented agricultural products are the EU countries and other neighboring countries
- This is a result of both geographic closeness and also trade agreements (EU Accession Agreement, CEFTA)

- As of May 1, 2004, the Czech Republic will apply EU's harmonized tariff schedule found at: http://europa.eu.int/comm/taxation_customs/dds/cgi-bin/tarchap?Lang=EN
- Both domestic food processing and food trade are dominated by strong multinational food companies (e.g. Phillip Morris, Danone, Master Foods, etc)
- About 25% food products are imported
- The main advantage of domestic products is price (e.g. pastas) and in some cases exceptionally good quality (e.g. beer). The advantages of imported products are primarily the lack of domestic products (e.g. seafood, some produce) and more selection for customers
- U.S. products are labeled with stickers that provide information required by Czech regulations, which mainly conform to European Union labeling requirements (see at <http://www.useu.be/agri/label.html>.)
- There is little U.S. vs. U.S. product competition in the Czech market with only few exceptions (e.g. peanut butter, popcorn)
- U.S. products have limited or no international competition in the following categories: peanut butter, Tex-Mex foods, cranberry sauce and juice, and microwave popcorn
- Most U.S. products enjoy favorable shelf placement and are prominently displayed
-

Imports of foodstuffs and live animals (SITC 0) in 2003 by country in % – total value \$2 billion



Imports of beverages and tobacco (SITC 1) in 2003 by country in % - total value \$270 million



SECTION IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market Which Have Good Sales Potential

- Dried fruit and nuts (almonds, pistachios, raisins, prunes, dried berries: blueberries, cranberries, cherries, macadamia, peanuts)
- Wine – Czech consumers are starting to replace beer consumption with wine consumption; New World wines are growing
- Distilled liquors - bourbons
- Seafood – especially Alaska salmon; Maine lobster; scallops, shrimps, tuna, etc.
- Rice
- Sauces
- Spices
- Baking mixes
- Peanut butter
- Various snacks

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Beef – after the EU accession U.S. hormone-free beef that is exported to the EU may be imported to the Czech Republic (and new steak houses are expected to emerge)
- Frozen Juice concentrate – not on the market yet due to higher prices of U.S. frozen juice concentrate, but in the future this may be a very good item since high quality frozen citrus concentrates are not locally available

C. Products Not Present Because They Face Significant Barriers

- All products containing genetically modified organisms (GMOs) due to retailers unwillingness to carry these products (all buyers request from an importer a certificate that a product is GMO free)

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you need more detailed information, please contact the Agricultural Office in Prague:

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Please visit our Internet home page for more information on the [Czech Republic](http://www.usembassy-vienna.at/usda). Other useful websites include our regional office based in Vienna: www.usembassy-vienna.at/usda and Foreign Agricultural Service's homepage www.fas.usda.gov
Our reports can be downloaded from:
<http://www.fas.usda.gov/scripts/attacherep/default.asp>

Other reports on the Czech Republic include:

EZ3020 Consumers Perceptions of Biotechnology

EZ3019 Organic Products

EZ3014 Exporter Guide

EZ3010 Tree Nuts

EZ3009 HRI Food Service Sector

EZ2012 Rice

EZ2011 Bourbon and Whiskey

EZ2010 Wine

EZ2009 Seafood

EZ2002 Food Processing Ingredients Sector

(Exchange rate: February 2004: 1 USD = 26 CZK)